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## WHITE PAPER

# Actuarial Valuations: Are You Paying Too Much?

When paying actuarial fees, what are you actually paying for? While the high cost of actuarial valuations for a defined benefit plan may be justified for the first year, subsequent years should require much less time and effort. Consequently, actuarial costs should be significantly lower. Are you paying too much?

Actuarial valuations are required for Defined Benefit (DB) pension plans by:

- ERISA (Employee Retirement Income Security Act of 1974) to determine pension funding requirements, and
- FASB (Financial Accounting Standards Board) to determine pension expenses and liabilities.

These valuations analyze a DB plan's data, plan provisions, actuarial methods and actuarial assumptions to determine the plan's costs and liabilities. Because these annual or triennial actuarial valuations are required does not mean that that plan sponsors cannot challenge actuarial costs.

Performing a DB plan's first actuarial valuation requires the most work on the part of the actuary. The prior years' results need to be recalculated to ensure that there is continuity. Then, a thorough review of plan provisions, methods, assumptions and participant data is made. Finally, the computer code is programmed and the valuation is run.

Subsequent DB plan actuarial valuations are relatively easy. The participant data is collected, checked and compared with prior years' data. Then the valuation is run, reviewed, and a report is generated. This is a significant reduction in work done by the actuary. In fact, except for the review, most of the work is done by a lower-paid actuarial assistant. In addition, after the first year, almost 90% the work on actuarial valuations consists of reconciling participant data. The actual valuation consists of simply changing the valuation date and running the same program as last year.

While the actuary's work is substantially less after the first year, actuarial fees are rarely, if ever, reduced for consecutive years. The actuary charges the same high fees for less work, resulting in substantial profits for the actuary. Like doctor's fees, actuarial fees are rarely challenged. But just like any other expense, actuarial fees should be questioned and subject to competitive bidding.

There are two ways that DB plan sponsors can significantly reduce actuarial fees:

- **Reduce Costs for Participant Data Work**

Almost 90% of the actual work on a DB actuarial valuation involves reconciling participant data. The reconciliation involves tracking the status and compensation of all plan participants from the prior valuation to the current valuation. This relatively easy task does not require the expertise of an actuary. As previously mentioned, a lower-paid actuarial assistant usually reconciles the data, which can be performed in-house or by a lower cost firm.

- **Obtain Competitive Bids**

The secret to obtaining a realistic competitive bid is to have an outside actuary prepare, review, and challenge your request for proposal (RFP) process. This actuary would know the difference between first-year and consecutive-year costs. He or she would also know the true cost of reconciling participant data and could help obtain the highest value for the services provided. Without the help of an actuary, the plan sponsor would probably not be familiar with the actuarial process and would not challenge the costs.

**Your Actuarial Partner**, Atéssa® Benefits, Inc., is staffed with professionals, trained in actuarial valuations, participant data reconciliations as well as preparing and analyzing competitive bids. Our team of actuaries, consultants and administrators are competent in all aspects of employee benefits. Atéssa is interested in helping you reduce your actuarial costs. For more information or to request a quote, please contact Debbie Mettenleiter, Marketing Director, at 858.673.3690.

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